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### Network importance and use

Folmer, Emma; Nederveen, Corneel ; Schutjens, Veronique

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## **Network importance and use: Commercial versus social enterprises**

**Emma Folmer\*, Corneel Nederveen, Veronique Schutjens**

*Final author version of published article*

### **Structured Abstract**

**Purpose:** The purpose of this paper is to understand how important networks are for the emergence and growth of social enterprises as well as how social enterprises use their networks throughout the life course of their organisation. We use a comparative approach by contrasting social enterprises with traditional commercial enterprises along the dimensions of obtaining resources and legitimacy through their networks.

**Methodology & approach:** We use an abductive approach starting from existing knowledge on how commercial enterprises utilise networks during the start-up and growth of their enterprise. We have conducted qualitative interviews with 23 entrepreneurs. Using a matched-pairs design, we compare the network importance and use of social and commercial enterprises.

**Findings:** We find that networks are highly important for both commercial and social enterprises throughout their life course. However, they substantially diverge in how they use their networks. Social enterprises tend to access more intangible resources through their networks than do commercial enterprises. Additionally, social enterprises rely more strongly on their networks for legitimacy in both the start-up and growth phase of the enterprise.

**Originality:** This paper takes a novel approach by empirically comparing the networks of social and commercial enterprises. We offer new insights in the resource flows within networks and how entrepreneurs use resources obtained from their networks.

### **\*Corresponding author**

Emma Folmer

University of Groningen, Centre for Sustainable Entrepreneurship

e.c.folmer@rug.nl

## Introduction

The importance of social capital and specifically networks to new enterprise formation and the subsequent firm life course is undisputed. Overall, entrepreneurship and management scholars agree that entrepreneurs use networks for opportunity identification, legitimisation, and resource mobilisation (Aldrich and Zimmer, 1986; Brüderl and Preisendörfer, 1998; Adler and Kwon, 2002; Brass *et al.*, 2004). Entrepreneurs use their network contacts to obtain crucial resources to successfully enter the market and move to subsequent phases in the business life course. Based on the notions of resource-based theory (Penrose, 1959), the theory of strong and weak ties (Granovetter, 1973), Burt's (1992) structural hole theory, Coleman's network closure theory (1988) and Lin's (2001) social resource theory, many scholars have found evidence of the benefits of social capital and network resources to firm creation, firm growth or in general, firm success (Schutjens & Völker, 2010; Stam, Arzlanian, & Elfring, 2014). However, the literature on the specific role of networks and networking for social enterprises is still in its infancy (Battilana and Lee, 2014), mainly due to two factors.

First, the existing literature on networks and social capital does not incorporate the hybrid nature of social enterprises and their social goals. Studies on network effects on enterprises have their roots in the economics and management literature, with its predominant focus on commercial entrepreneurship. The main motive for commercial entrepreneurs is to increase revenues and to improve financial performance. As such, traditional literature focuses on the resources entrepreneurs mobilise to gain market information and access to financial and practical support related to financial performance and survival in the market place. However, these traditional mechanisms to obtain legitimacy and resources may have limited use for social enterprises. First, social enterprises have a 'double bottom line' where creating social value is equally or more important than creating economic value. Social enterprises may therefore be sourcing other benefits from their networks or trying to include a highly diverse set of stakeholders in their networks in order to progress both social and economic goals. Second, in the social enterprise sector with its complex and multiple stakeholders, legitimacy in terms of building reputation does not follow commercial market rules. Profits, sales and market share are not the main drivers of legitimacy for social enterprises. These two aspects are likely to set social enterprises apart from commercial ones in how they use social networks. Although recently, scholars studying networks and entrepreneurship have called for a broadening of the subject to social enterprises, empirical studies are still scarce (Dacin, Dacin and Tracey, 2011).

Second, most attempts to empirically study social capital in relation to social entrepreneurship analyse this relationship at the macro level. Conceptualising social capital as interpersonal trust at the country level, these studies argue that socially supportive culture and generalised social trust play a role in the supply of social entrepreneurs by inducing caring behaviour (Pathak & Muralidharan, 2016; Stephan *et al.*, 2015). At the same time, being indicative of weak-tie social capital, high levels of generalised social trust can reduce transaction costs and ease access to resources (Estrin *et al.*, 2013; Stephan *et al.*, 2015). Recent advances in terms of large-scale data collection on social entrepreneurship, for example, in the Global Entrepreneurship Monitor, have facilitated this research. Despite providing valuable insights, these studies do not shed light on

how social entrepreneurs *use* their networks and how this may differ from mainstream commercial entrepreneurs.

For the purpose of this paper, we define social enterprises as organisations with an embedded social purpose that engage in market exchange (Austin et al., 2013; Lumpkin et al., 2013; Mair & Marti, 2006). Social enterprises aim to solve complex social problems such as poverty, limited employment opportunities of vulnerable groups or homelessness. Because they pursue a social mission by making use of market-based strategies, social enterprises are often seen as 'hybrid' organisations – the 'hybridity' materializes in combining elements of for-profit and non-profit organisations in one single business model (Battilana & Lee, 2014). We argue that the hybrid nature of social enterprises influences the importance of their networks and how they make use of their networks. Our approach therefore highlights networks as the *outcome* of particular organisational characteristics and processes (Hoang and Antoncic, 2003).

In this paper, we compare the network importance and network use of commercial and social enterprises in their start-up and growth phase. The most important determinant of network utilisation investigated to date is the firm life course – as the development stage of an organisation necessitates different uses of network resources (Evald et al., 2006; Hite & Hesterly, 2001; Larson & Starr, 1993; Stam et al., 2014). We therefore argue that when comparing social networks between social and commercial enterprises, the life-phase of the organisation needs to be considered (Garnsey, 1998; Wright and Stigliani, 2013). Most existing literature on entrepreneurial networks looks at the effect of network size or network position on new enterprise emergence and survival. Our paper offers novel insights into the importance and use of networks throughout the enterprise life course. Moreover, contrasting this role of networks between social and commercial entrepreneurs will provide new insights in the social entrepreneurial process and how it differs from mainstream entrepreneurship. The research question we put forward is as follows: *How does the importance and use of networks differ between social and commercial entrepreneurs in specific life course phases of the enterprise?* Following the literature review, we will present two propositions that guide our empirical investigation.

The remainder of this paper is organised as follows. The next section provides an overview of the existing literature on how entrepreneurs use networks in different life-phases of their organisation. We also set out why we expect social enterprises to use their network differently compared to mainstream commercial enterprises. We then present our data and methodology. The subsequent results section is followed by a conclusion and discussion of our research findings.

## **Literature Review**

### *The network approach to entrepreneurship*

Networks are extremely valuable to entrepreneurs and their organisations because they provide access to social capital (Stam et al., 2014). Social capital essentially refers to the 'goodwill' contained in a relationship allowing for the transformation of that relationship into valuable resources (Adler and Kwon, 2002). In addition to resource access, networks can also provide legitimacy to new organisations that have not built a reputation in the marketplace yet (Hite and

Hesterly, 2001). An organisation is seen as legitimate when its actions are deemed 'desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions' (Suchman, 1995: 574). Legitimacy is important for the extent to which audiences understand organisations and perceive them as meaningful and trustworthy (M. C. Suchman, 1995; Delmar and Shane, 2004). Resource mobilisation and legitimacy are closely connected, as legitimacy helps organisations gain access to resources. Although in general, social capital is regarded as something positive, it can also have its dark side for at least four reasons (Portes, 1998; Gedajlovic *et al.*, 2013). Closed, strong and tight entrepreneurial networks may bring a high burden of reciprocity demands, a loss of freedom to do business with partners outside the network, the exclusion of others, and the perceived need to conform to group norms that may limit entrepreneurial innovativeness. Existing research suggests that these issues may also apply to social enterprises (Richards and Reed, 2015).

Scholars have investigated the role of entrepreneurial networks in the start-up phase and the development phase of new ventures (Stam *et al.*, 2014; Hoang & Antoncic, 2003). In the start-up phase, individual-level social capital contained in entrepreneurs' personal networks extends to the level of the new venture. In this phase, entrepreneurs are directly involved in daily operations, are personally involved in all decision-making, and 'perform key boundary-spanning roles' (Stam *et al.*, 2014:156). As enterprises grow and develop, the properties of the founders' interpersonal networks transfer to the firm level and become inter-organisational networks that do not need to be personally maintained by the founder (Larson and Starr, 1993; Hoang and Antoncic, 2003).

#### *Networks throughout the enterprise life course*

Previous research has shown that personal contacts facilitate firm emergence by providing the (nascent) entrepreneur with access to social, emotional, and material support (Stam *et al.*, 2014). The first two can be labelled 'intangible', comprising information on industry and market trends as well as feedback on the entrepreneurial idea (Shah and Tripsas, 2007). Several studies have found that in the initial stages of new venture establishment, the founders' personal network also provides access to crucial 'tangible' resources such as start-up capital, material goods, or (cheap) business premises. Relating to start-up capital in particular, close personal ties such as family and friends often become investors in the very early stages (Brüderl and Preisendörfer, 1998; Lechner, Dowling and Welp, 2006). Founders' personal networks can help new enterprises overcome the so-called liabilities of newness and smallness that makes institutional and private investors hesitant to invest in new ventures (Stinchcombe and March, 1965; Hite and Hesterly, 2001). To increase their legitimacy and decrease the liability of newness caused by information asymmetries between themselves and potential investors, entrepreneurs may also seek endorsement from high-status individuals and organisations in their network (Hoang & Antoncic, 2003).

As enterprises mature, the importance of networks remains but the utilisation of networks shifts from providing access to financial resources and legitimacy to providing access to advanced knowledge and new markets (Brass *et al.*, 2004; Stam *et al.*, 2014). Lechner and Dowling (2003) proposed that in the growth phase, reputation and legitimacy become less important, as the enterprise has overcome the initial liability of newness. However, growing enterprises still need

resources to expand, and their acquired legitimacy enables them to mobilise resources from weak ties more easily (Evald et al., 2006; Hite & Hesterly, 2001). In this phase, collaborative networks between competitors and strategic partnerships become more important, as these offer opportunities to share research and development costs or open up access to new markets. The well-known model of network evolution by Butler and Hansen (1991) suggests that as enterprises move from the start-up to the growth phase they rely less on personal networks and more on professional and eventually on strategic networks. This model stresses the importance of taking a dynamic perspective on networks. Considering entrepreneurship as a process, we need to take into account that throughout their life course, organisations have different needs and ambitions and are at least partly able to develop their networks in order to meet those needs (Schutjens and Stam, 2003).

#### *The importance of networks for social enterprises*

The overview above stems from existing research on mainstream commercial enterprises, but how might the hybrid nature of social enterprises influence the importance and use of their social networks? We argue that the social mission of social enterprises increases their need for legitimacy, as they are not easily understood in terms of existing legitimate forms of organisation. The hybrid nature of social enterprises also constrains their access to resources, as they are less attractive to outside investors.

New organisations are faced with high legitimacy demands (Aldrich and Fiol, 1994). Although social enterprises often operate in established industries such as education and healthcare, they often try to implement new ways of working within those industries. Whereas legitimacy is important for every organisation, social enterprises tend to 'violate the boundaries' of existing legitimate forms of organisation such as business and charity, which considerably increases their complexity (Battilana & Lee, 2014: 14). Their hybrid form makes social enterprises less recognisable and less familiar to outside observers, including potential funders, contractors and customers. Suchman distinguishes between organisations seeking 'passive acquiescence' or 'active support' (1995:575). For the former, it is enough for organisations to 'make sense' in order to be seen as legitimate in the marketplace. However, when organisations seek active support from their environment, they need to meet a higher threshold of legitimacy: they also need to be seen as worthy and valuable (Suchman, 1995). Because social enterprises constitute a new organisational form, serve new types of markets and often try to transform established industries, they need active support to be seen as legitimate. This leads social enterprises to rely more strongly on their networks to reach the higher legitimacy demands.

Social enterprises need to convince a multitude of different stakeholders of their appropriateness and trustworthiness (Perrini et al., 2010; Shaw & Carter, 2007). Particularly in the early phase of social enterprise formation, their activities need to be deemed valuable by outside evaluators to obtain access to funding. The hybridity of pursuing social *and* financial goals often hampers easy interpretation of value generated by the organisation. Sarpong and Davies (2014) found that social enterprises can extract legitimacy from their networks by convincing influential contacts to make a philanthropic contribution in the form of taking a seat on the board or lobby on their behalf. In

later life-phases of the organisation, social enterprises continue to face legitimacy challenges due to their hybridity. Social enterprises therefore continuously seek endorsement or association with actors and organisations that possess a certain authority or standing in their field. Moreover, when social enterprises seek to develop a higher-level social impact, in terms of institutional or 'systemic' change, over time they may rely more strongly on collaborative networks than commercial enterprises. Involving stakeholders for social impact results in 'momentum' and leverage on a policy level in order to provide scalable solutions to social problems (Montgomery et al., 2012; Stephan et al., 2016).

In the start-up phase, social enterprises suffer, just as commercial enterprises do, from a liability of newness. They face financial resource constraints and need to mobilise start-up funding. Social enterprises do not perfectly 'fit' in existing organisational categories, making it difficult for investors to gauge their reliability and trustworthiness (Battilana & Lee, 2014). Moreover, the social mission embedded in social enterprises ensures that the majority of the generated surpluses will be reinvested in the social mission. For outside investors therefore, the economic gain from investing in social enterprises is limited compared to investing in commercial enterprises (Austin, Stevenson and Wei-Skillern, 2013). Moreover, many social enterprises have beneficiaries that are not able to pay (fully) for the goods or services rendered (Dorado & Ventresca, 2013; Lumpkin et al., 2013; Mair & Marti, 2006). Difficulties in securing external investment as well as limits to the generation of cash flow in early phases cause new social entrepreneurs to rely on a mix of income sources. Social enterprises often have income from trade, government grants and subsidies, donations and loans from social investment organisations (Lumpkin et al., 2013). In contrast to commercial enterprises, which may use financial reserves and positive cash flow to generate growth in later life-phases, social enterprises are likely to continuously rely on a mix of stakeholders to access funds for scaling up.

Social enterprises' need for intangible resources is influenced by the multi-agency environments in which they operate. A social enterprise that tries to tackle homelessness has to engage with issues of housing, employment and health care and the public and private organisations active in these fields. A large and diverse network with actors from various sectors will help social enterprises gain access to support, information and know-how (Sud et al., 2009; Richards and Reed, 2015). In its early life-phase, a social enterprise may use its networks to acquire knowledge and information from cross-sectoral networks in order to identify opportunities for innovative solutions to social needs (Austin et al., 2006). Social enterprises can use their networks to verify that the opportunity they identified will gain traction with funders, beneficiaries and other stakeholders such as community members (Lumpkin et al., 2013; Rao-Nicholson et al., 2017).

When social entrepreneurs seek to grow their organisation, their reliance on diverse stakeholders is likely to become even stronger. Scaling up products and services through process development and process efficiency, using financial resources generated by profits, applies only to a limited extent to social enterprises. In the process of scaling-up, social enterprises are likely to need new collaborations to access resources. For example, collaborations may be an effective way for social enterprises to bid for contracts for outside funding, as these processes generally take up

considerable time and manpower (Montgomery, Dacin and Dacin, 2012).

In the preceding sections, we have provided a (non-exhaustive) overview of the existing literature on the importance of networks throughout the enterprise life course. This literature suggests that the importance of networks for entrepreneurs is likely to change over the firm's life course. However, we do not know much on how entrepreneurs actually use their networks, let alone how this may differ between social and commercial enterprises and in different development phases. Existing knowledge on the hybrid nature of social enterprises provides some insights on how they might be using their networks. Overall we expect that this hybrid nature of social enterprises causes them to value and use their networks differently from commercial enterprises, in both the start-up and growth phase.

Based on the literature overview above, we expect to encounter the following differences between social and commercial enterprises:

- 1) Social enterprises rely more strongly on their networks to reach legitimacy demands than commercial enterprises do, in both the start-up and growth phase;
- 2) In the firm growth phase, social enterprises rely on their networks more strongly for acquiring resources than commercial enterprises do.

## **Methodology**

Taking the first steps in understanding the diverging importance and use of networks between social and commercial enterprises throughout their life-course, we take an abductive approach. Abduction sits between deduction and induction. In an abductive approach, one starts from the likeliest explanation in order to understand 'missing observations'. In our case, this implies taking established knowledge on the importance and use of entrepreneurial networks to the case of social entrepreneurship. As evidence is collected, this explanation is continuously adapted until one settles on the best fitting explanation. We collected data using qualitative methods. Since our research is concerned with the perceptions of network importance and use of both social and commercial entrepreneurs, semi-structured interviews were most effective.

We studied social and commercial entrepreneurs in an area demarcated as Greater Birmingham. The area is covered by the Greater Birmingham and Solihull Local Enterprise Partnership – GBSLEP; a partnership between local authorities, businesses and the public sector, created by the UK government in 2011 (GBSLEP, 2016). Their purpose is to create economic opportunities and to support economic growth and job creation in the local area. Birmingham and Solihull are the main metropolitan cores in Greater Birmingham. Both places have a growing population of social enterprises, forming an interesting backdrop for this study.

## ***Sample***

We sampled respondents according to a matched-pairs design. We purposefully sampled social enterprises in a limited number of industries in which we were likely to find commercial counterparts (see appendix A). The matched pairs approach ensures that the social and



commercial enterprises in our study are comparable in terms of age, size and the industry in which they operate. This design also makes it more likely that the differences found between social and commercial enterprises are due to the firm being social or commercial instead of other firm characteristics. We conducted semi-structured interviews with the entrepreneurs between October 2016 and January 2017. Sampling social enterprises is notoriously difficult because they do not have a shared legal form and there is no pre-existing sampling frame (Lyon and Sepulveda, 2009; Dart, Clow and Armstrong, 2010). Initial respondents were found by contacting local social enterprise support organisations. Further interviewees were selected through referrals from initial interviewees. Social enterprises had to meet the following criteria to be selected: they 1) operate in a market by selling goods or services and 2) consider their social mission to be equally or more important than generating financial value for the company. Both criteria were checked at the beginning of the interviews with the social enterprises. The matched commercial enterprises were found using the Fame directory (Bureau van Dijk, 2017), containing information on UK and Irish companies. The Fame directory enables searches on multiple criteria, such as postcode, standard industrial classification, size and year of incorporation.

We used the same interview format for both social and commercial entrepreneurs. Where possible we interviewed owner-founders. In some cases, interviews with higher-level management were conducted. Respondents were asked about the importance and use of networks in the start-up and growth phase of their organisation. When the respondents' organisation was still in the start-up phase, we asked about their plans for the growth phase. We collected 23 interviews in total; 14 with social entrepreneurs and 9 with commercial entrepreneurs. The interviews lasted between 30 and 60 minutes. All enterprises can be classified as small businesses<sup>1</sup>. All interviews were recorded and fully transcribed.

#### *Data analysis*

To gauge the importance of networks, the respondents were asked to rank the value of networks relative to other conditions that are deemed as important in the entrepreneurial ecosystem. The ecosystem approach stems from the ecology literature emphasising favourable breeding grounds for specific species. Applying this idea to entrepreneurship, the entrepreneurial ecosystem literature states that entrepreneurship thrives in an environment that meets a set of conditions (Isenberg, 2010; Stam, 2015). In general, six key conditions that play a role in enabling entrepreneurial activity are recognised, which are networks, leadership, new knowledge, finance, talent and support services (Stam, 2015).

Respondents used visual cues to rank these six key conditions. For each condition, the individual rankings of the respondents were aggregated and divided by the number of observations. For example, if three entrepreneurs conducted a ranking and respectively scored the condition

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<sup>1</sup> Please see appendix A for an overview table listing all respondents.

'networks' as rank 1, 3 and 5, the overall average score for this condition would be 3 (ranking 9 in total / 3 observations). The condition with lowest score is most important. Not every respondent created a ranking of the conditions for both the start-up and (planned) growth phase, due to several reasons. First, in a few cases a change in management or a very high firm age impeded asking about the start-up phase. Second, some enterprises were very young, thus finding it difficult to talk about the (planned) growth phase. Table 1 shows how many entrepreneurs created a ranking for each specific life phase, where 1 observation is 1 ranking. As there are more observations for social entrepreneurs than for commercial entrepreneurs, the overall scores were weighted, so that social and commercial entrepreneurs had the same share in the overall scores. We analysed the rankings for our sample overall and for commercial and social entrepreneurs separately.

To understand how our respondents used their networks, we conducted an interpretative analysis of all interview transcripts. All three authors independently coded the interviews using the same coding scheme. Our data analysis followed a two-step process. As we followed an abductive approach, the first step was to apply the existing explanatory framework of network use for commercial enterprises to our data. This meant that we looked for instances where respondents referred to the use of networks to mobilise resources or obtain legitimacy. In the second step, we followed a process of pattern matching, highlighting instances where the existing explanatory framework did and did not 'fit' our empirical data (Alvesson and Kärreman, 2007; Richards and Reed, 2015). This step resulted in a second set of codes highlighting differences between social and commercial enterprises. The full coding scheme is presented in Figure 1. The authors crosschecked each other's coding and only the themes that all authors agreed upon were used in the final analysis to improve the rigour of the analysis.

***Insert Figure 1 here***

## Results

### *Importance of networks*

Table 1, pane 1 below shows how the respondents ranked the six key enabling conditions they were presented with in the interviews. For each key condition the average score is listed in brackets. Based on all rankings, networks were perceived to be by far the most important condition.

***Insert table 1 here***

In the start-up phase, networks are crucial for both social and commercial enterprises (Table 1, pane 1). Both groups rank networks as the most important condition. Entrepreneurs mentioned that when starting the enterprise, they needed to establish new relationships with other organisations, businesses and stakeholders that could provide resources and support services to successfully take off.

Social and commercial entrepreneurs agree on the importance of most other conditions that influenced the enterprises' start-up (Table 1, pane 2). Both types of entrepreneurs argue that in the

start-up phase, 'talent' and 'new knowledge' did not particularly affect their enterprise at that time. In contrast, in the start-up phase, all entrepreneurs ranked 'leadership' and 'support services' quite high, as entrepreneurs felt that they could learn a lot from a leader, mentor or role model. Regarding the start-up phase, we observe differences in the importance of 'finance', which social entrepreneurs value much higher. This is quite remarkable, as we expected commercial entrepreneurs to rank this higher than social entrepreneurs. Possibly, this difference is due to commercial entrepreneurs having easier access to financial resources through mainstream channels compared to social entrepreneurs. In other words, the difficulty to access finance may have caused social entrepreneurs to perceive 'finance' as a vital condition.

According to most entrepreneurs, in the (planned) growth phase as well, networks remain highly important to the further development of their enterprise (Table 1, pane 3). For commercial entrepreneurs, networks move down in importance as they value 'new knowledge' somewhat higher. Still, also for them, networks remain highly important. Thus we see a persistent importance of networks while we observe different rankings across most of the other conditions. For social enterprises, access to financial resources remains a crucial factor over the firm life course. This is in sharp contrast with commercial enterprises, where 'finance' does not rank very high in the (planned) growth phase.

In short, relative to other conditions for enterprise start-up and development, both social and commercial entrepreneurs perceive 'networks' as vital to their enterprise. But do social and commercial entrepreneurs differ in the way they use these networks to obtain legitimacy and mobilise resources?

#### *Network use*

##### *Using networks to gain legitimacy*

Existing studies have identified two main ways for entrepreneurs to gain legitimacy for their enterprise. First, entrepreneurs can obtain 'conforming legitimacy' if the enterprise is seen to confirm to widely accepted standards in terms of organisational capabilities, processes and operations (Suchman, 1995; Tornikoski & Newbert, 2007). Second, organisations can obtain 'strategic legitimacy' by manipulating their audiences and 'proactively extracting legitimacy from their environment' (Tornikoski & Newbert 2007:315). Our results indicate that the hybrid nature of social enterprises makes it more difficult for them to obtain conforming legitimacy while they may actually leverage their hybridity to gain strategic legitimacy.

When referring to the start-up phase of their organisation, both social and commercial entrepreneurs in our sample indicate that they have used networks to obtain legitimacy. Compared to commercial entrepreneurs, relatively many social entrepreneurs clearly mention instances of obtaining legitimacy from their network. We have identified three distinct ways in which our respondents obtain legitimacy through their networks; legitimacy through association, legitimacy through community building and legitimacy through partnerships. Of these three strategies, the last one (legitimacy through partnerships) is exclusively used by social enterprises.

*Legitimacy through association* means that emerging organisations associate themselves with bodies, organisations or institutions that are well regarded in their respective industries or communities. For the social enterprises in our sample, this usually meant that these organisations would 'champion' them. Their social mission provides social enterprises with the necessary traction to associate themselves with a wide range of community organisations. Some social enterprises talked about how the local church or the local community leader would send customers their way:

"I think in help from the church itself, that made a massive difference towards the support we have been given from the community and the customers that come our way really". (SE11)

Other instances involved established community organisations organising meetings and events on the premises of the newly emerging social enterprise. Two social enterprises mentioned membership of social enterprise support organisations as important in the start-up phase. For the commercial enterprises in our sample, this strategy consisted mostly of obtaining conforming legitimacy by joining trade federations or formal networks to become part of a larger community. By joining these formal networks, the emerging enterprises were signalling to their environment that they were aware of industry norms and standards and able to meet the 'right' people:

"The (anonymised) is a federation that I joined. It didn't do loads for me. I still had to be proactive, but it gave me the right people in the industry. You do understand when you learn who is who and where do they come from - and who is controlling the crafting world". (CE9)

*Legitimacy through community building* occurs both offline and online. For both the social and the commercial entrepreneurs in our sample, this strategy starts with their personal contacts. In the offline sense, entrepreneurs interact with initial customers and personal contacts to spread information through word of mouth and to 'start a brand'. Both commercial and social entrepreneurs mention that their networks delivered them their first customers. Consequently, legitimacy established through these initial network ties is used to expand networks and build ties to other stakeholders:

"So it took two years of not really earning my way probably. It was more about making contacts and getting little scraps of work. In 2010, my film helped change that kind of speed of things. After that film, my name was around; I was a bit more plugged in with the film making community and the TV-making community". (CE2)

An online presence allows fledgling businesses to present oneself as fully functioning organisation (Tornikoski & Newbert, 2007). Both social and commercial entrepreneurs also use online networking tools such as social media and review sites to create online communities:

"Networks, we use Facebook for promotions; they do play a role in getting it out and letting people know, because then a lot people know us through Facebook. Us getting on local sell groups or any local groups has helped a lot". (SE12)

*Legitimacy through partnerships* partly resembles legitimacy through association. However, the important difference is that the organisations involved in a partnership obtain mutual gains from the partnership, monetary or otherwise and that the partnership is formalized through a contract or memorandum of understanding. Particularly for social enterprises, partnerships with

organisations that have a high profile in the industry grant them legitimacy. Although this type of relationship can involve an aspect of 'mentoring', the relationship is based on more than just goodwill. Only social enterprises in our sample mentioned these types of partnerships as important for obtaining legitimacy in the start-up phase. One respondent recalls that working in partnership with a well-known social enterprise support organisation granted them much 'credit' in the social enterprise community. Other examples involve obtaining contracts with local authorities as 'proof' of legitimacy. Indeed, several social enterprises in our sample actively leveraged their hybrid nature to secure partnerships with well-known commercial players in their industry:

"One of our customers over time found that we were outperforming their existing suppliers in the private sector, and they were happy with the quality of work and happy with the turnaround times, so that was quite important". (SE13)

Legitimacy is referred to as crucial for emerging organisations. The literature has mostly assumed that once legitimacy is built in the start-up phase, organisations no longer proactively seek legitimacy in later phases (Aldrich and Fiol, 1994; Delmar and Shane, 2004). In accordance with the literature, we did not find any commercial enterprises that mentioned obtaining legitimacy in the growth phase of their organisation. In contrast, we find that legitimacy through networks is of continuing importance for social enterprises. Six social enterprises in our sample indicated that obtaining legitimacy through networks remains important in the growth phase. There are two main functions of this continued legitimacy building through networks. First, social enterprises continue to build their legitimacy to grow their customer base and increase their social impact. Second, social enterprises build legitimacy not only for their individual organisation but also for the general social enterprise community. The strategy that was used by the social enterprises in our sample in this (planned) growth phase was legitimacy through partnerships. One example is a social enterprise that is currently involved in a partnership with the local authority reaching out to the local authority's social care and economic development departments to 'educate' them about their social impact. Another example is a social enterprise that explicitly works in partnership with new and small social enterprises to give them a presence in the social enterprise community:

"We work together with other social enterprises a lot of the time. We try to represent the underdogs, so the people that don't necessarily get heard. But if we think their project is great, then we work with them". (SE4).

#### *Using networks to mobilise resources*

In our comparison of how social and commercial entrepreneurs access resources through their networks, we distinguish between tangible resources (finance and material goods) and intangible resources (knowledge, practical support and emotional support). Our analysis shows that social and commercial enterprises access different resources through their networks. Moreover, they typically rely on different types of networks to access those resources. We find that social and commercial entrepreneurs rely differently on personal, associative, professional and institutional networks of relationships (Hernández-Carrión, Camarero-Izquierdo and Gutiérrez-Cillán, 2017). Personal relationships are contacts with relatives, friends, and neighbours. Associative network relationships refer to links with co-members of volunteer associations, such as cultural, sports,

civic and professional groups. Professional relationships relate to the business' value chain, and encompass exchange relationships with business partners, suppliers, customers and employees. Finally, institutional networks of relationships link the entrepreneur to representatives of formal public and private institutions, i.e., governments, media, public authorities or financial organisations.

The vast majority of entrepreneurs in our sample mentions networks to be important for resources in the start-up phase. Social entrepreneurs rely on their network for intangible resources such as information about funding opportunities and business and motivational support. The network 'buzz' helped them to acquire knowledge, advice and ideas on how to position their enterprise, whom to contact and where to look for funding:

"One person will say... Oh you need to speak to so and so. And I will go and say oh I tried them last year. And they will say oh they have changed, or somebody moved on. They will know stuff that I don't. And they will tell me because they want to share knowledge." (SE5).

Social enterprises mostly use their associative networks to access this type of information and support. For example, social entrepreneurs use their relationships with other social enterprises and charities in the community to collect information on how to incorporate their organisation and to apply for start-up grants. Regarding tangible resources, many social enterprises access institutional networks of public and private institutions to obtain initial funding for their ventures, mostly grant-making organisations or local authorities:

"Last year we started going to a lot of events and networking and places, like, we went to a social enterprise awards event, and there was a flyer for support organisation X there. So, we took the flyer and then looked online. Support organisation Z was less visible, but then when you spoke to people, it was very recommended, but it had to come more through word-of-mouth". (SE10).

Funding from grant-making organisations often comes in conjunction with intangible support such as accounting and business advice. Furthermore, winning initial funding builds legitimacy, as the receiving social enterprise associates itself with the grant-making organisation.

In contrast, relatively many commercial entrepreneurs recall having benefitted from tangible resources and in-kind support through their personal network in the start-up phase. In the start-up phase, commercial enterprises rely more strongly on relationships with family and friends and professional relationships. Tangible resources or financing opportunities have often been derived from their personal network or early business (buyer-seller) relationships, which some entrepreneurs might not have labelled 'networking', but instead, either a family issue or simply market yield. Although some commercial entrepreneurs in our sample do mention membership of associative networks, these mostly serve legitimacy goals, and less often resources are obtained through these networks. This commercial entrepreneur recalls how they obtained their business premises through their personal network:

"I know the people that own this building, so I was able to just ring them off and ask do you mind if I turn your office into a café? So I didn't have to go through any formalities". (CE8).

The social entrepreneurs in our sample often cross-referenced each other, when asked about network support and advice, indicating cohesive networks. In assessing the value of networks in the start-up phase, some social entrepreneurs explicitly refer to the importance of interlinkages and 'mix' of actors in the social enterprise arena. In the start-up phase, social enterprises indeed have a more diverse array of network members compared to commercial enterprises. In light of the hybrid nature of social enterprises, this is indicative of the need to connect to multiple stakeholders in a multi-agency environment.

In the (planned) development phases of their enterprise, both social and commercial entrepreneurs continuously mention the importance of networks. In this phase, they access different resources through network relationships. To grow, social enterprises use both their professional and associative networks for general support and knowledge, but mostly, to obtain information about new business and funding opportunities. One social enterprise mentions how they strategically recruit key expertise needed through their board of directors. Very often they also mention reciprocity – social enterprises help each other out and as such, they collectively benefit from exchanging knowledge and (practical) support. Indeed, in their (planned) growth phase, social enterprises are keen to build professional networks with other social enterprises out of interest in growing the local social enterprise community as a whole:

"The one way of reinvesting is also by helping out other community interest companies, and obviously, as I said before about the staffing in the local area". (SE11).

The commercial entrepreneurs in our sample have more instrumental relationships. A few commercial enterprises share information about market opportunities, with the purpose of setting up formal collaborations or strategic partnerships. Interestingly, the commercial entrepreneurs in our sample rarely mention obtaining any tangible resources from their network that can be used for growth. This may be indicative of them reinvesting their own (financial) resources generated in the earlier firm life course phases. The networks that they mention as important in the growth phase are mostly professional relationships in their value chain that can help them grow and access new markets both nationally and internationally.

With respect to the type of network relationships, social entrepreneurs, already having a rather diverse network at time of start-up, continually invest in partnerships with other social enterprises, local institutions and community organisations, local authorities, and (former) customers. However, some social entrepreneurs mention that the necessity to maintain original links to social enterprise support organisations wanes when the business grows. In contrast, their relationships with commercial enterprises clearly gain importance in this phase, making the networks of social enterprises even more diverse over time. Several social enterprises state that without reaching out to the private sector, social enterprises will remain in their 'bubble', limiting their development and growth:

"I would also say that it is important that the social enterprise doesn't just have its own little bubble. And I think the kind of success of the future of social enterprise rests on the ability to engage with the private sector and not just to rely on the third sector". (SE8).

Finally, we find evidence of blurring boundaries between associative and professional networks for social enterprises. Over time, social entrepreneurs stay in close touch with multiple stakeholders in their network, either professional contacts from former collaborations, or members of associative groups. In some cases, members of their associative networks become customers, suppliers, and collaborative partners, and vice versa. Table 2 below presents an overview of our most important findings.

***Insert table 2 here***

## **Conclusion**

Our research question was: *How does the importance and use of networks differ between social and commercial entrepreneurs in specific life course phases of the enterprise?* As the literature has thus far conceptualised and analysed the value of networks for commercial entrepreneurs only, we start from the knowledge that the importance and use of networks may change over the enterprises' life course. We also incorporate existing knowledge on the hybrid nature of social enterprises and explore how this hybridity influences how social enterprises use their networks. We found empirical evidence for both similarity and differentiation between commercial and social enterprises.

We found that networks are equally highly valued in the start-up and (planned) growth phase by both social and commercial enterprises. However, we did find that social and commercial entrepreneurs *use* their networks differently. The major differences are captured by the type of resources mobilised through networks as well as the legitimacy function of networks. In the start-up phase, social enterprises mobilise intangible resources in the form of business support through their associative networks. During this phase of the enterprises' life course, social enterprises rely mostly on formal institutional relationships for tangible resources. They obtain grants or start-up funding through social enterprise support organisations, local authorities and social finance organisations. In sharp contrast, commercial entrepreneurs mostly rely, in addition to their personal funds, on financing accessed through informal personal relationships.

For social enterprises, obtaining legitimacy through network contacts is an on-going issue throughout the enterprise's life course. We therefore find support for our first proposition. In the start-up phase, social enterprises extract strategic legitimacy from their environment by engaging in partnerships with a variety of stakeholders in both the public and the private sector. This is where legitimacy and resources are closely connected. Lacking the resources to scale independently, growing social enterprises seek partnerships with organisations that increase their access to resources as well as their legitimacy and thereby their access to additional grants and funding. This is in contrast with commercial enterprises, which obtain initial conforming legitimacy by joining formal trade organisations, and as they grow, they become more self-reliant in terms of both legitimacy and financial resources. To enable their firms to grow, commercial enterprises



reinvest their profits to increase process efficiency, develop new products and invest in market development. When commercial enterprises exchange intangible resources in the growth phase, this is mostly information exchange aimed at building formal and strategic partnerships. As social enterprises rely more strongly on their network for resources in both the start-up and the growth phase, we find support for our second proposition.

In addition, if social and commercial enterprises seek partnerships in the (planned) growth phase, the former seem to reach out to more diverse network contacts, explicitly including the private sector. Additionally, in our sample, social enterprises were more inclined to seek partnerships that benefit the community of social enterprises by, for example, working with new or emerging social enterprises. In contrast, commercial enterprises mainly seek partners in their own sector and supply chain to strengthen their own market position.

As the existing literature on how networks add value to the social enterprise process is thus far limited, we sought refuge in insights from general (commercial) entrepreneurship studies to inform our analysis and as a base for comparison. We contribute in three ways to this existing literature. First, our findings indicate that networks are equally important to social enterprises in both the start-up and growth phase of their enterprise's life course, yet these networks have distinct evolutionary patterns. The networks of commercial enterprises follow a traditional evolutionary pattern from personal to professional and strategic networks (Butler & Hansen 1991). However, we find that social enterprises rely more on institutional and associative networks in the start-up phase and on associative and professional networks in the growth phase. This implies that in future studies on the emergence and development of social enterprises, we should take the configuration of their networks into account. Our second contribution is that our research demonstrates that the hybrid nature of social enterprises has an impact on how these enterprises use their networks. Because of their hybridity, social enterprises need to appeal to different audiences. Our results indicate that social enterprises indeed use highly diverse networks through which they can access a variety of information on opportunities regarding finance, business development and growing their impact (Montgomery, Dacin and Dacin, 2012; Austin, Stevenson and Wei-Skillern, 2013; Lumpkin *et al.*, 2013). Moreover, social enterprises are more likely to continuously expand and diversify their networks. We propose that this is due to two main mechanisms. First, the lack of cash flow and financial investment in social enterprises limits endogenous enterprise growth. The lack of internal investment 'pushes' social entrepreneurs to reach out to old and new networks. Second, a 'pull' mechanism is in place; as for social enterprises, scaling up means creating and increasing the social impact. To this end, social entrepreneurs need diverse partnerships with other people and organisations: to spread the word, to increase and diversify the customer base and to open up new markets and applications. As a third contribution, we build on the existing network approach to entrepreneurship. Thus far, the existing literature has mostly focused on how network size and position influence firm performance and survival (Stam *et al.*, 2014; Hoang & Antoninc 2003). The actual content of networks, how they are utilised and the specific resources exchanged between network members, are hardly investigated empirically. Our paper offers novel insights into the use of networks by comparing the

actual resources mobilised and the channels through which this occurs between social and commercial enterprises.

One of the limitations of our study is that the distinction between legitimacy and resource mobilisation is mostly an analytical one and that in reality these two dimensions of networks may be blurred. Not only does legitimacy help to mobilise resources from the network, legitimacy itself can be regarded as a 'resource' that entrepreneurs may accrue from their network. In that sense, legitimacy can also be 'mobilised'. However, since in the context of social enterprises their legitimacy is often questioned by outside observers, this is a key dimension that needs to be considered separately. Another limitation of our study is its relatively small sample size. Because we used matched-pairs sampling, the actual number of social enterprises in our study is limited. To obtain a deeper understanding of the strategic networking of social enterprises, one would have to include a larger sample of social enterprises. Finally, our findings show that in the GBSLEP area, there are several social enterprise support organisations for social enterprises to build sustainable relationships with. Social enterprises elsewhere may not have access to this type of support infrastructure, and hence, their networks may be configured differently.

Our study has implications for social networks, social enterprises and policy. Notwithstanding the theorized dark side of social networks, almost all entrepreneurs mention positive network effects on enterprise creation and development. However, social enterprises have more diverse networks, with more stakeholders and thus more sources through which resources can be retrieved. Commercial enterprises tend to stick to existing networks, while social enterprises benefit from continuously expanding and diversifying networks. It may be fruitful, for both social and commercial enterprises, to actively strive for diverse networks, even when time and energy is limited. From a policy perspective, one of the implications of this study is that gaining legitimacy for social enterprises is, thus far, mostly a bottom-up story. Social enterprises must work hard at making the right connections to organisations that can grant them legitimacy. We suggest that policymakers can facilitate the way social enterprises are or feel legitimate, in two specific ways. First, standards on the quality of business processes can be developed to which social enterprises can conform, and which can be used in marketing, communication and knowledge exchange, which increases legitimacy ('conforming legitimacy'). Second, local policymakers can strategically advocate, market, and promote social enterprises by commissioning to social enterprises and lobbying on their behalf to higher-level government officials. This effort would include increasing definitional clarity of the concepts of social value and social impact from a policy perspective. This can reinforce the implementation of the Social Value Act (2014), which was meant to stimulate commissioning to social enterprises by local authorities. This top-down strategy increases awareness and recognition of social enterprises and their (community-wide) impact. It is important to recognise that when investments are made in social enterprise organisations, these will benefit not just a single organisation but are likely to generate positive spill-over effects for the social enterprise community through their networks.

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## Appendix A: overview of interview respondents

<b>Type</b>  SE = Social Enterprise CE = Commercial Enterprise	<b>Sector</b>	<b>Founded in</b>	<b>Number of employees</b>  ft=fulltime jobs; pt=parttime jobs
SE 1	Media and marketing	2009	3 ft 18 pt
SE 2	Media and marketing	2009	2
SE 3	Media and marketing	2007	3 ft 4 pt
SE 4	Event Management	2009	1
SE 5	Selling of produce	2016	1
SE 6	Café/ Restaurant	2014	10
SE 7	Business Consultancy	2015	1
SE 8	Light manufacturing	1963	6
SE 9	Landscaping	2011	12
SE 10	Cycle retail	2016	2
SE 11	Café	2013	5
SE 12	Online retail	2015	1
SE 13	Light manufacturing	2012	20
SE 14	Community centre	2012	11 ft, 30 volunteers
CE 1	Media and Marketing	2007	8
CE 2	Media and Marketing	2008	1
CE 3	Media and Marketing	2012	3 ft 10 pt
CE 4	Event Management	2010	3
CE 5	Selling of drinks	2016	3
CE 6	Landscaping	2012	12
CE 7	Cycle retail	1990	1
CE 8	Café	2014	1 ft 1 pt
CE 9	Online retail	2014	1

**Table 1: Comparative importance ranking of networks**

<b>Pane 1: overall average ranking</b>			
<b>Rank</b>	<b>Social Enterprise</b>	<b>Commercial Enterprise</b>	<b>Overall (weighted)</b>
<b>1</b>	Networks (2.65)	New Knowledge (2.87)	Networks (2.79)
<b>2</b>	Finance (3.35)	Networks (2.93)	New Knowledge (3.40)
<b>3</b>	Leadership (3.45)	Support Services (3.46)	Leadership(3.52)
<b>4</b>	Support Services (3.80)	Leadership (3.60)	Support services (3.63)
<b>5</b>	Talent (3.85)	Talent (3.67)	Talent (3.75)
<b>6</b>	New Knowledge (3.95)	Finance (4.33)	Finance (3.83)
<b>N</b>	20	15	35
<b>Pane 2: start-up phase average ranking</b>			
<b>Rank</b>	<b>Social Enterprise</b>	<b>Commercial Enterprise</b>	<b>Overall (weighted)</b>
<b>1</b>	Networks (2.75)	Networks (2.86)	Networks (2.80)
<b>2</b>	Finance (3.13)	Leadership (3.00)	Leadership (2.99)
<b>3</b>	Leadership (3.13)	Support Services (3.42)	Support services (3.42)
<b>4</b>	Support Services (3.38)	Talent (3.57)	Finance (3.77)
<b>5</b>	New knowledge (4.38)	New knowledge (3.71)	Talent (3.97)
<b>6</b>	Talent (4.38)	Finance (4.28)	New knowledge (4.04)
<b>N</b>	8	7	15
<b>Pane 3: (planned) growth phase average ranking</b>			
<b>Rank</b>	<b>Social Enterprise</b>	<b>Commercial Enterprise</b>	<b>Overall (weighted)</b>
<b>1</b>	Networks (2.58)	New knowledge (2.13)	Networks (2.79)
<b>2</b>	Finance (3.50)	Networks (3.00)	New knowledge (2.90)
<b>3</b>	Talent (3.50)	Support Services (3.50)	Talent (3.63)
<b>4</b>	New knowledge (3.67)	Talent (3.75)	Support services (3.79)
<b>5</b>	Leadership (3.67)	Leadership (4.25)	Finance (3.88)
<b>6</b>	Support Services (4.08)	Finance (4.25)	Leadership (3.96)
<b>N</b>	12	8	20

**Table 2: Comparative use of networks for social and commercial enterprises**

	<b>Networking activity</b>	<b>Networking purpose</b>	<b>Networking outcome</b>
<b>Start-up phase: Social enterprises</b>	Association (informal) and associative networks	<ul style="list-style-type: none"> <li>- Legitimacy through being championed by community members and SE support organisations</li> <li>- Intangible resources: knowledge, advice and ideas</li> </ul>	<ul style="list-style-type: none"> <li>- Gaining traction through referrals</li> <li>- Getting your name 'out there'</li> <li>- Acquiring crucial information for setting up the SE</li> </ul>
	Community building	<ul style="list-style-type: none"> <li>- Legitimacy by establishing 'the brand' of the organisation offline and online</li> </ul>	<ul style="list-style-type: none"> <li>- Obtaining initial customers</li> <li>- Network expansion</li> </ul>
	Partnerships	<ul style="list-style-type: none"> <li>- Legitimacy through formal partnership with renowned organisation</li> </ul>	<ul style="list-style-type: none"> <li>- Sustained legitimacy formalised in a contract or partnership agreement</li> </ul>
	Institutional networking	<ul style="list-style-type: none"> <li>- Resources – mostly tangible (financial)</li> </ul>	<ul style="list-style-type: none"> <li>- Financial security for a fixed time period</li> <li>- Increased legitimacy</li> </ul>
<b>Start-up phase: Commercial enterprises</b>	Association (formal)	<ul style="list-style-type: none"> <li>- Legitimacy through joining formal trade associations, showing awareness</li> </ul>	<ul style="list-style-type: none"> <li>- Acceptance by suppliers and customers</li> </ul>

		of industry standards	
	Community building	- Legitimacy by establishing 'the brand' of the organisation offline and online	- Obtaining initial customers - Network expansion
	Personal networks	- Resources: tangible (financial, material, and labour)	- Surviving liability of newness
<b>Growth phase: Social enterprises</b>	Partnerships	- Legitimacy through formal partnership with other organisations, including newer social enterprises	- Increasing social impact - Legitimacy for general social enterprise community
	Associative networks & professional networks	- Resources: Information and access to new business and funding opportunities - Exchanging resources in SE supply chain	- Increasing market reach and social impact - Strengthening the SE community as a whole
<b>Growth phase: Commercial enterprises</b>	Professional & strategic networks	- Resources: information about new markets and new opportunities	- Access to new markets nationally and internationally through collaboration or strategic partnership



**Figure 1: Coding scheme**

Step 1

Step 2

